AMERICAN STORES COMPANY ANNUAL REPORT 1984

American Stores Company is a holding company and conducts all of its operating activities through its wholly owned subsidiaries, Acme Markets, Inc., Alpha Beta Company, Buttrey Food Stores, Jewel Food Stores, Osco Drug, Inc., Sav-on Drugs, Inc., Skaggs Companies, Inc., Skaggs Alpha Beta, Inc. and Star Market Company. American is principally engaged in a single industry segment, the retail sale of food and drug merchandise, a highly competitive industry. The Company is one of the nation's leading retailers, operating combination drug/food stores, super drug centers, drug stores and food stores. The merchandise sold by the subsidiaries includes most food items and non-food items such as prescription drugs, tobacco products, housewares, health and beauty aids and sundry merchandise for home and family use. The Company operates 1,486 retail units in 40 states. At February 2, 1985 the Company had approximately 122,000 employees.

Financial Highlights

American Stores Company and Subsidiaries

Fiscal years, 53 weeks, ended February 2, 1985 and 52 weeks ended January 28, 1984

(In thousands except per share data)	1984	1983
Sales	**$12,118,793**	$7,983,677
Net Earnings	**$185,525**	$117,902
Per Common Share	**$5.71**	$3.61
Dividends Declared Per Share:		
Common Stock	**$.64**	$.44
Series A $4.375 Preferred Stock	**$1.09**	—
Series B $6.80 Preferred Stock	**$1.70**	—
$5.51 Preferred Stock	**$4.13**	$5.51
Common Shareholders' Equity	**$676,752**	$451,694
Book Value Per Common Share Outstanding	**$21.39**	$15.26
Return on Common Shareholders' Average Equity	**30.4%**	26.4%
Average Common Shares Outstanding	**30,076**	29,556

Contents

Annual Meeting

The Annual Meeting of Shareholders will be held on
Tuesday, June 11, 1985 at 10:00 a.m.
Salt Lake International Center
5181 Amelia Earhart Drive, Salt Lake City, Utah

Dear Shareholder:

This past year witnessed many accomplishments in one of the most eventful periods in American Stores Company history. In addition to posting favorable operating results, the Company undertook and successfully completed the acquisition of Jewel Companies, Inc. Considerable progress has since been made in consolidating and assimilating Jewel Companies into American Stores.

Background

In the spring of 1983, your Company began an extensive survey of the retail food and drug industry in order to identify an acquisition candidate which would best fit your Company's long term strategies. In the fall of that year, a detailed analysis was made of the financial and business data of the leading food and drug retailers. Many different criteria were utilized, and each time the conclusion was the same. By every measure used, Jewel Companies, Inc. represented the best possible acquisition for the Company. In terms of economic ratios, the geography, the management talent and philosophy, style of operations, store formats, merchandising and even the strategies of the two companies, the acquisition made an excellent fit.

This conclusion was especially striking because Skaggs Companies, Inc., which is today American Stores Company, discussed a possible combination of the two companies with Jewel Companies, Inc. back in 1965. Thirteen years later, on April 3, 1978, Jewel Companies, Inc. and the then Skaggs Companies, Inc. announced an agreement in principle to merge. On June 14, 1978, after management members of the Skaggs Board of Directors had opposed the merger with Jewel, talks were terminated. At the time, Donald S. Perkins, Chairman of Jewel Companies, Inc., said, "We continue to admire Skaggs' retail achievements." Perkins added that as far as he could tell, he and Mr. Skaggs had never wavered in their joint belief in the business advantages of the merger.

While previous merger discussions with Jewel did not reach fruition, nevertheless the common ground the two companies shared in both 1965 and 1978 was still much in evidence in 1984. The fact is, American was well-acquainted with Jewel's operating subsidiaries even before the prior two attempts to merge in 1965 and 1978. This long association began with the inception of Osco Drug Company and Skaggs Company even before Osco had become a subsidiary of Jewel. Osco Drug and Skaggs have common roots dating back to the 1930's when the two drug retail

companies were separately formed by two Skaggs brothers. L.L. Skaggs founded Osco Drug almost at the same time his brother, L. S. Skaggs, Sr., created Skaggs Drug Centers. Osco and Skaggs drug stores considered themselves sister drug chains. They developed on a parallel course through the early 1960's. Since they were not direct competitors, Skaggs Drug Stores on a fee basis arrangement utilized the Osco merchandising bulletins and buying services, and even attended the trade shows with Osco personnel. While these two drug chains obviously had a shared history of growth and common family roots, there was yet another link between Skaggs' and Jewel's operating subsidiaries. Sav-on Drugs, Inc., another Jewel subsidiary, had a very similar operating philosophy to that of both the Osco and Skaggs drug stores. Sav-on's founder, C.J. Call, was a business partner and close associate in retail food store operations with O. P. Skaggs, a brother of the founders of both Osco and Skaggs drug stores. Later, after Mr. Call sold his interest in those stores, he relocated to California and founded Sav-on Drug in 1945.

These common roots in retailing and the shared operating philosophy, when combined with the intensive analysis of the financial and business data, indicated that the logic behind the two previous attempts at a merger not only remained valid, but that if anything the two companies were more compatible than ever before.

Acquisition

In mid-April 1984, a Company representative contacted a Jewel representative seeking Jewel management's reaction concerning a business combination in which American would acquire Jewel. On April 25, 1984, American's representative met with a representative of Jewel. On June 1, 1984, your Company commenced a cash offer for Jewel Companies, Inc. Common shares at $70.00 and Preferred shares at $49.90. On June 14, 1984, the directors of Jewel and American's boards entered into a definitive merger agreement for the acquisition of Jewel for the price of $75.00 per Common share and $53.47 for each Jewel Preferred share.

The acquisition had a total value of approximately $1.1 billion in cash and issued securities. On June 29, 1984, American purchased 71 percent of Jewel's outstanding shares for approximately $772 million. To accomplish the first phase of the acquisition, your Company borrowed $750 million from a syndicate of commercial banks. On November 16, 1984, the

shareholders of the two companies approved the final phase of the acquisition. The remaining 29 percent of the Jewel stock was exchanged for two newly created series of preferred stock and American Stores Company Common stock.

Financial

In conjunction with the acquisition, it was necessary for the Company to retire the $5.51 Cumulative Preferred stock which it funded through the sale of $125 million in privately placed subordinated debt.

Almost immediately upon completing the acquisition, your Company began an analysis of the assets and real estate of the respective companies in order to dispose of those which did not fit into the Company's long-term plans. The objective was to reduce the acquisition-related debt, strengthen the balance sheet and return the Company to its pre-acquisition ratios while maintaining its Standard and Poor's "A" debt rating and its Fitch F-1 commercial paper rating.

As of February 2, 1985, the close of the fiscal year, the Company had divested itself of the following major assets:

- October - sold 33 Alpha Beta grocery stores in Arizona for approximately $57 million;
- November - sold 11 Houston Sav-on drug stores for approximately $14 million;
- December - sold Rea and Derick, Inc., a drug chain, for approximately $90 million;
- December - sold Jewel's 36.1 percent equity ownership in Aurrera, S.A. de C.V., Mexico's leading retailer, for approximately $53 million;
- January - sold 22 Alpha Beta grocery stores in the San Joaquin Valley and the leasehold position in the Milpitas, California warehouse as well as the related inventory and equipment for an equivalent value of $52 million.

In January of 1985, proceeds from the sale of these and other miscellaneous assets and its strong cash flow enabled the Company to pay down $300 million of the outstanding $750 million debt incurred in the acquisition and to retire approximately $50 million of other debt. The Company's 9⅝% Sinking Fund Debentures, the 9⅞% Sinking Fund Debentures and Jewel's 4½% Notes were retired with internally generated cash. The majority of the remaining $450 million acquisition-related debt has been converted to long-term status with the banks. The Company intends to maintain financial flexibility

regarding its debt. Should the financial market prove favorable this year, the Company intends to consider the possibility of entering into a public debt offering converting a portion of the debt to a fixed long-term rate.

Subsequent to the end of the fiscal year, the White Hen Pantry division of Jewel was sold for a cash purchase price of approximately $55 million, and it is expected that the sale of the Park Corporation, Jewel's manufacturing subsidiary, will take place in the near future. The Company will continue to evaluate its real estate and other assets to determine which ones are not consistent with the Company's long-range plans.

Operating Results

For the 53 week fiscal year ended February 2, 1985, the Company reported sales of $12.1 billion, up from $8 billion in the prior year. Like store sales showed a six percent increase for the year. Net income was $185.5 million, equal to $5.71 per share, up from $117.9 million, or $3.61 per share for the 52 weeks a year ago.

The 14 week fourth quarter sales increased to $4 billion from $2.2 billion for the 13 week quarter a year earlier. Net income for the 14 week period was $89.6 million, or $2.76 per common share, compared to $45.8 million or $1.46 per common share in the corresponding 13 week quarter of the previous year.

It will be difficult to make any kind of meaningful comparison of the financial results for the past year, or for that matter on a quarter-to-quarter basis, during fiscal 1985. American's results will reflect the consolidation of Jewel's results into our own on the basis of purchase accounting. In effect, all of Jewel's operating results are included on American's income statement from June 29, 1984 through February 2, 1985, less minority shareholders' interest from June 29, 1984 through November 15, 1984. For this reason, American has undertaken a major change in the printing of the traditional Annual Report. This year, the Company has incorporated the entire Securites and Exchange Commission Form 10-K within the Annual Report, with the exception of the exhibits. You are encouraged to read the entire report including "Management's Discussion and Analysis of Financial Condition and Results of Operations". The intended result is to provide shareholders with a fully integrated annual disclosure in a single document.

Management

A word of appreciation should be extended to the executive staff and employees who worked so long and hard this past year to make this acquisition a reality. American has likewise achieved

excellent support and cooperation from the executive staff and other employees of the Jewel organization. Their help has been instrumental in achieving a smooth transition and subsequent consolidation. In particular, the Company would like to acknowledge the efforts of two former Jewel executives. Through his energy and dedication, Richard G. Cline, who served as Jewel's President and Chief Executive Officer, contributed importantly to the successful transition. Samuel J. Parker, who formerly headed Sav-on Drug, also ably assisted in the process.

American Stores has successfully integrated several of the talented Jewel officers and employees into corporate positions as well as its operating subsidiaries. At the same time, many of the Skaggs Alpha Beta, Skaggs Companies and former Rea and Derick executives are contributing to Sav-on Drug Company, Buttrey Markets and Acme Markets in key operating roles.

On July 31, 1984, Thomas W. Field Jr. resigned as President of American Stores as well as President of Alpha Beta Company and Skaggs Companies, Inc. Subsequently, three highly qualified senior vice presidents were named to a newly created Office of the President to add strength and depth. They are Victor L. Lund, Financial Accounting; Alan D. Stewart, Human Resources; and Larry A. Hodges, Merchandising and Operations.

In other senior management developments, Joseph R. Bowman and Richard P. Gladden were appointed as Presidents of Skaggs Drugs Centers and Alpha Beta Company, respectively. Lawrence S. Rogers was appointed President of Skaggs Alpha Beta, and Richard E. George, President of Osco Drug Company, was named to the additional post of President of Sav-on Drugs.

Directors

American Stores Company is pleased to welcome six new members to the Board of Directors. Three of the new directors are former members of the Jewel Companies, Inc. Board of Directors. They are Silas S. Cathcart, Chairman of Illinois Tool Works, Inc.; James B. Fisher, former President and Director of J.C. Boswell Company of Los Angeles; and Barbara S. Preiskel, a New York attorney and former Senior Vice President of the Motion Picture Association of America. Two new directors are presidents of operating subsidiaries; Richard E. George, President of Osco Drug Company and Sav-on Drug and James H. Henson, President of Jewel Food Stores. The sixth new director is Louis H. Callister, senior partner in the law firm of Callister and Nebeker, P.C. of Salt Lake City, Utah.

Future

The next two years, 1985 and 1986, represent a transition period for American Stores. During this time, the Company will continue to integrate its operations and management, and to improve its performance wherever possible.

A high priority project, now well under way, is the creation of the nation's first coast-to-coast drug chain, which will operate under the Osco Drug Company name. The selection of the Osco name is appropriate because Osco is the largest of the three chains being brought together.

Already, many of the Skaggs Drug Centers have been converted to Osco Drug Centers. The Company expects to complete the name conversion by the end of this year. The conversion of Sav-on Drug to Osco Drug will take place soon thereafter. The Company will have created the first drug chain with 648 super drug stores in over 30 states—from the coast of Maine to California's Pacific Ocean.

The development of this unified national drug chain should produce many benefits including the economies of developing a national umbrella from which it can achieve savings in advertising, purchasing, and distribution. The advantage of advertising the Osco Drug name in conjunction with national name brands should be a major benefit to American as well as an incentive to the manufacturers.

Turning to expansion, your Company will continue to integrate the real estate functions of the acquired entities into American Stores Properties, Inc. American's 1985 capital expenditures will approximate $230 million, and the 1986 capital expenditures will be approximately $280 million. The Company plans to continue an aggressive real estate and capital expenditure program in the coming years which will accelerate the development of large combination food and drug stores, super drug stores and expanded food stores.

Over the longer term, American Stores intends to further strengthen its national leadership position in its selected areas of retailing. Increasing productivity remains an important objective. Your Company approaches the future with enthusiasm.

L. S. Skaggs
Chairman of the Board

Board of Directors and Officers

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Louis H. Callister
Partner, Law Firm of Callister, and Nebeker, P.C

Silas B. Cathcart
Chairman of the Board, Illinois Tool Works, Inc.

Richard G. Dunlop[1]
Vice Chairman of the Board and Treasurer

James B. Fisher
Former President, J C Boswell Company

Richard E. George
President, Osco Drug Company and Sav-on Drug

Williford Gragg[2,3,4]
Retired Former Chairman of the Board, United States Fidelity & Guaranty Company

Leon G. Harmon[1,2,3,4]
President and Chief Executive Officer, First Interstate Bank of Utah, N.A.

James H Henson
President, Jewel Food Stores

Thomas W. King
President, Acme Markets, Inc

L. Tom Perry[1,2,4]
Member of the Council of the Twelve, The Church of Jesus Christ of Latter-day Saints

Barbara S. Preiskel
Attorney, New York, New York

Aline W. Skaggs[2,3,4]
Director

L. S. Skaggs[1,3,4,a]
Chairman of the Board

Earl P. Staten[1,2,4]
Retired Counsel to Law Firm of Callister and Nebeker, P C

Thomas H. Sunday[1]
Executive Vice President, General Counsel and Secretary

I.J. Wagner[2,3]
President, The Keystone Company

1 Executive Committee
2 Audit Committee
3 Nominating Committee
4 Compensation and Stock Option Committee
a Ex-officio

American Stores Company Officers

L. S. Skaggs
Chairman of the Board

Richard G. Dunlop
Vice Chairman of the Board and Treasurer

Thomas H. Sunday
Executive Vice President, General Counsel and Secretary

Scott Bergeson
Executive Vice President and Assistant Secretary

Victor L. Lund
Senior Vice President Office of the President

Michael T. Miller
Senior Vice President and Assistant Secretary

Frederick P. McBrier
Senior Vice President and Assistant Secretary

Alan D. Stewart
Senior Vice President Office of the President

Larry A. Hodges
Senior Vice President Office of the President

Post Office Box 27447, Salt Lake City, Utah 84127-0447 / Telephone (801) 539-0112

Principal Operating Subsidiaries

Officers of the Principal Operating Subsidiaries

Alpha Beta Company
777 South Harbor Blvd.
La Habra, California 90631
Telephone (714) 738-2000
RICHARD P. GLADDEN
President

American Stores Buying Company
Post Office Box 30658
Salt Lake City, Utah 84130
Telephone (801) 537-3000
FRITZ W. KEIL
President

Acme Markets, Inc.
124 North 15th Street
Philadelphia, Pennsylvania 19101
Telephone (215) 568-3000
THOMAS W. KING
President

American Stores Properties, Inc.
444 East 100 South
Salt Lake City, Utah 84111
Telephone (801) 530-1300
RALPH E. DAVIS
President

American Stores Management Systems Company
Post Office Box 30658
Salt Lake City, Utah 84130
Telephone (801) 537-3000
DENNY W. STEELE
President

Buttrey Food Stores
601 Sixth Street, S.W.
Great Falls, Montana 59404
Telephone (406) 761-3401
RONALD J. FLOTO
President

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
Telephone (312) 531-6000
JAMES H. HENSON
President

Osco Drug, Inc.
1818 Swift Avenue
Oak Brook, Illinois 60521
Telephone (312) 887-5000
RICHARD E. GEORGE
President

Sav-on Drugs, Inc.
1500 South Anaheim Blvd.
Anaheim, California 92805
Telephone (714) 778-2300
RICHARD E. GEORGE
President

Skaggs Companies, Inc.
Post Office Box 30658
Salt Lake City, Utah 84130
Telephone (801) 537-3000
JOSEPH R. BOWMAN
President

Star Market Company
625 Mt. Auburn Street
Cambridge, Massachusetts 02138
Telephone (617) 661-2200
W. BRUCE KRUEGER
President

Skaggs Alpha Beta Company
5201 Amelia Earhart Drive
Salt Lake City, Utah 84116
Telephone (801) 537-3000
LARRY S. ROGERS
President

Common Stock Market Prices and Dividends

The market price range on the New York Stock Exchange and the dividends declared on the Company's common stock are set forth in the table below. The common and preferred shares of the Company are listed on the New York, Philadelphia and Pacific Stock Exchanges under AmStr. and the trading symbol is ASC. The number of shareholders of record of the Company's common stock at April 10, 1985 was 14,824.

Years Ended	*February 2, 1985*			*January 28, 1984*		
	Sales Price High	*Sales Price Low*	*Cash Dividends Declared*	*Sales Price High*	*Sales Price Low*	*Cash Dividends Declared*
First Quarter	**34⅞**	**27¼**	**$.16**	27⅛	20⅞	$.08
Second Quarter	**33¾**	**26½**	**.16**	35⅛	25	.12
Third Quarter	**40⅞**	**33⅝**	**.16**	44	32¼	.12
Fourth Quarter	**50½**	**35⅛**	**.16**	43⅜	31½	.12
			$.64			$.44

Corporate Information

American Stores Company

Post Office Box 27447
709 East South Temple
Salt Lake City, Utah 84127-0447

Registrar and Transfer Agent

Morgan Guaranty Trust Company of New York
Trust Department
30 West Broadway
New York, New York 10015
Telephone (212) 587-6469

Shareholder Relations

Shareholder inquiries should be directed to:

Corporate Secretary
Post Office Box 27447
Salt Lake City, Utah 84127-0447
Telephone (801) 539-0112

SEC 10-K Report

In compliance with the requirements of the Securities and Exchange Commission, the Company has incorporated all essential material of its Form 10-K SEC filing requirements within this annual report. The intended result is to provide shareholders with a fully integrated annual disclosure in a single document.

Additional copies of this annual report and Form 10-K, with exhibits, may be obtained without charge from the:

Treasurer's Office / PO Box 27447 / Salt Lake City, Utah 84127-0447

William R. Deeley

American Stores Company wishes to acknowledge the significant contribution of William R. Deeley upon the occasion of his retirement as a member of the Board of Directors.

Bill Deeley began his twenty-seven years of distinguished service to the Company with Alpha Beta Company in 1957. His career spanned nearly three decades, serving as Chief Executive Officer of Alpha Beta Company during a period of its greatest growth and expansion.

Bill served in many executive positions with the Company, including Treasurer, President and Chief Executive Officer of Alpha Beta Company; and subsequently as President and Chief Executive Officer of and a member of the Board of Directors of American Stores Company. He served as President and then Vice-Chairman of the newly formed American Stores Company following the acquisition of the former American Stores by Skaggs Companies, Inc.

Bill Deeley's business judgment, experience and leadership were influential in the development of a stronger, new American Stores Company.

Ernst & Whinney

515 S. Flower Street
Los Angeles, California 90071

213/621-1666

Shareholders and Board of Directors
American Stores Company
Salt Lake City, Utah

We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of February 2, 1985 and January 28, 1984, and the related consolidated statements of earnings, common shareholders' equity, and changes in financial position for each of the three fiscal years in the period ended February 2, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above on pages 17 through 39 present fairly the consolidated financial position of American Stores Company and subsidiaries at February 2, 1985 and January 28, 1984, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended February 2, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & W

Los Angeles, California
March 15, 1985

Selected Financial Data

American Stores Company and Subsidiaries

The following consolidated selected financial data of American Stores Company and subsidiaries for the five years ended February 2, 1985 should be read in conjunction with the consolidated financial statements and related notes of the Company appearing elsewhere herein:

(In thousands except per share data)	*February 2,[1,2] 1985*	*January 28, 1984*	*January 29, 1983*	*January 30, 1982*	*January 31, 1981*
Sales	**$12,118,793**	$7,983,677	$7,507,772	$7,096,590	$6,419,884
Net earnings	**$185,525**	$117,902	$90,371	$64,552	$51,553
Less preferred dividends declared:					
Series A $4.375 preferred stock	**(4,306)**	—	—	—	—
Series B $6.80 preferred stock	**(1,942)**	—	—	—	—
$5.51 preferred stock	**(7,504)**	(11,220)	(11,220)	(11,220)	(11,220)
Net earnings applicable to common stock	**$171,773**	$106,682	$79,151	$53,332	$40,333
Average common shares outstanding[3]	**30,076**	29,556	29,415	29,541	29,412
Net earnings per common share[3]	**$5.71**	$3.61	$2.69	$1.81	$1.37
Cash dividends declared per common share[3,4]	**$.64**	$.44	$.33	$.27	$.27
Total assets at year-end	**$3,535,737**	$1,626,695	$1,444,367	$1,356,328	$1,292,992
Long-term obligations	**$1,199,829**	$366,856	$352,033	$380,470	$392,327
Redeemable preferred stock	**$254,044**	$118,110	$118,110	$118,110	$118,110

[1]Reflects the acquisition of Jewel Companies, Inc., effective June 29, 1984.

[2]53 weeks

[3]Restated to reflect 3-for-1 common stock split effective July 8, 1983

[4]For restriction on common dividends, see "Long-term Debt" in notes to consolidated financial statements

Results of Operations

Net earnings for the 53 week period ended February 2, 1985 increased to $185,525,000, or $5.71 per common share of stock, compared to $117,902,000, or $3.61 per common share of stock, for the 52 week period ended January 28, 1984. Net earnings for 1982 amounted to $90,371,000, or $2.69 per common share of stock. Earnings per common share of stock for 1983 and 1982 have been restated to reflect the Company's 3-for-1 common stock split effective July 8, 1983. The current year results include the results of Jewel Companies, Inc. from June 29, 1984 to February 2, 1985 with appropriate recognition of minority shareholders' approximately 29% equity in the earnings of Jewel Companies, Inc. from June 29, 1984 to November 15, 1984. The acquisition of Jewel Companies, Inc. has been accounted for on the purchase method of accounting, and the results of operations include certain adjustments necessary to reflect this method of accounting.

Sales for 1984 increased 51.8% to $12,118,793,000 compared to sales of $7,983,677,000 for 1983. Sales for 1982 amounted to $7,507,772,000. The partial year sales for Jewel Companies, Inc. included in 1984 amounted to $3,579,180,000. Like store sales, or stores that have been in operations for two full years, increased 6.0% for the year, exceeding the Company's internally calculated inflation rate of 3.2%.

During the year ended February 2, 1985, gross profits were 23.8% of sales compared to 24.2% in 1983 and 23.8% in 1982. The lower gross margin percent for 1984 was offset by the Company's continued improvement in operating expenses as a percent of sales which decreased to 20.9% from 21.3% in 1983 and 21.4% in 1982.

The gross profit results include the impact of the LIFO provision of $7,150,000, for the current year, compared to $2,081,000, for 1983 and $5,771,000 in 1982. After-tax LIFO charges amounted to $3,961,000, or $.13 per common share for 1984, $1,135,000, or $.04 per common share for 1983, and $3,126,000, or $.11 per common share for 1982. The increase in the LIFO charge for 1984 was due to the inclusion of the Jewel LIFO charge since June 29, 1984, which was partially offset by reductions of LIFO inventories in California and Arizona.

Other income includes items which had a significant impact on the year-to-year comparisons. First, included in other income in 1984 is a one-time $79,962,000 gain on the sale of the Rea and Derick, Inc. subsidiary, the sale of Alpha Beta supermarkets in

Results of Operations *(cont.)*

Arizona and the San Joaquin Valley of Northern California. The net result of these subsidiary and division dispositions was to increase earnings per common share by $1.70. Interest expense of $111,738,000 for 1984 includes the acquisition interest expense incurred to acquire approximately 71% of the outstanding stock of Jewel Companies, Inc. in the tender offer consummated June 29, 1984. Interest expense was $35,615,000 for 1983 and $36,649,000 for 1982.

Pre-tax earnings for 1984 amounted to $346,613,000 compared to $216,129,000 in 1983 and $166,859,000 in 1982. The effective consolidated income tax rates were 44.6%, 45.5% and 45.8% in 1984, 1983 and 1982, respectively. Fluctuations in income tax rates are attributable to varying amounts of investment tax credits and capital gains, which are taxed at lower rates. The 1984 tax rate was favorably impacted by a significantly higher level of capital gains than were experienced in the previous years. Also impacting the the 1984 tax rate was the unfavorable impact of the nondeductibility, for income tax calculations, of depreciation and amortization and other acquisition expenses as prescribed by purchase accounting.

Current year results of operations were also impacted by the disposition of Rea and Derick, Inc. in December 1984, Alpha Beta stores in Arizona in October 1984 and the Northern California Alpha Beta stores in January 1985.

Liquidity and Working Capital

As a result of the acquisition, current assets and current liabilities at year end 1984 significantly changed when compared to those reported for the previous years.

Working capital declined by $74,345,000, to $211,394,000 at February 2, 1985, compared to $285,739,000 at January 28, 1984. Working capital at January 29, 1983 amounted to $220,007,000. Current ratios were 1.17 to 1, 1.46 to 1 and 1.40 to 1 at February 2, 1985, January 28, 1984 and January 29, 1983, respectively.

The reduction in working capital of $74,345,000 is primarily the result of the reduction of cash and short-term cash investments of $58,789,000. The reduction in cash is primarily a result of a repayment of debt. See the Debt-to-Equity section following for details.

As a supplement to working capital, the Company has arranged for bank lines of credit. At February 2, 1985, the Company had available through thirteen banks $80,000,000 in short-term bank lines of credit and an additional $50,000,000 available under the short-term facility portion of the acquisition loan discussed in the "Short-Term Borrowings" section of the Notes to Consolidated

Liquidity and Working Capital *(cont.)*

Financial Statements. The Company believes that the working capital and lines of credit are adequate to meet the presently identified working capital requirements.

Average short-term borrowings (excluding the acquisition borrowing) amounted to $4,176,000 in 1984, none in 1983, and $1,975,000 in 1982. The maximum short-term borrowings outstanding were $65,000,000 in 1984 (excluding the acquisition borrowing), none in 1983 and $30,000,000 in 1982. Average interest rates charged to the Company on short-term borrowings were 9.97% in 1984, and 9.53% in 1982. Average prime interest rates for these periods were 12.0% and 14.48% respectively.

Debt-to-Equity

In July 1984, the Company, in order to acquire approximately 71% of Jewel Companies, Inc., borrowed $750,000,000 under a $800,000,000 credit agreement with a syndicate of commercial banks. In January 1985, $300,000,000 of the loan was repaid and the credit facility was reduced to $500,000,000. The repayment proceeds came principally from existing cash balances, the sale of Rea and Derick, Inc., a wholly owned subsidiary, the sale of Alpha Beta stores in Arizona and Northern California, the sale of the investment held by Jewel in Aurrera S.A. de C.V., a leading Mexican retailer, the sale of Sav-on Drug stores located in Houston, Texas, other miscellaneous real estate sales and funds generated from operations and available cash balances. At February 2, 1985, the borrowings under the agreement were $450,000,000, of which $25,000,000 was short-term and $425,000,000 was long-term.

Additionally, in November 1984, the Company issued, through a private placement offering, $125,000,000 of subordinated debentures due in 1989 and 1991. Proceeds raised through the offering were used primarily to redeem the Company's $5.51 Cumulative Preferred Stock. During 1984, an additional $55,136,000 was borrowed long-term to finance capital expenditures and $65,609,000 of long-term debt was retired.

On November 16, 1984, the shareholders of American Stores Company approved the acquisition of the remaining 29% of Jewel through the issuance of American Stores Company common stock and newly created American Stores Company Series A $4.375 Preferred Stock and Series B $6.80 Preferred Stock in exchange for all of the remaining outstanding Jewel Common Stock and Series A $2.31 Preferred Stock.

Debt-to-Equity *(cont.)*

As a result of the items discussed above, the ratio of debt-to-common stockholders' equity increased to 1.77 to 1 in 1984, compared to .81 to 1 in 1983 and .98 to 1 in 1982.

Capital Expenditures

Capital expenditures for 1984 amounted to $308,120,000 compared to $140,392,000 in 1983 and $113,758,000 in 1982. During 1985, the Company expects capital expenditures to be approximately $230,000,000, financed by internally generated funds and long-term borrowings.

Inflation and Changing Prices

Inflation continues to impact the operations of the Company by increasing sales, expenses and the cost of acquiring property, plant and equipment. The impact of inflation on the Company is discussed in more detail under the caption "Supplementary Information on Inflation and Changing Prices (Unaudited)" in the Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

American Stores Company and Subsidiaries

Fiscal years ended February 2, 1985, January 28, 1984 and January 29, 1983

(In thousands except per share data)	53 Weeks 1984	52 Weeks 1983	1982
Sales	**$12,118,793**	$7,983,677	$7,507,772
Cost of merchandise sold, including warehousing and transportation expenses	**9,234,204**	6,051,677	5,718,520
Gross profit	**2,884,589**	1,932,000	1,789,252
Operating, general and adminstrative expenses	**2,536,001**	1,697,484	1,603,689
Operating profit	**348,588**	234,516	185,563
Other income (deductions):			
Gain on sale of subsidiary and divisions	**79,962**	—	—
Interest income	**16,954**	10,199	9,792
Interest expense	**(111,738)**	(35,615)	(36,649)
Other income	**12,847**	7,029	8,153
	(1,975)	(18,387)	(18,704)
Earnings before income taxes	**346,613**	216,129	166,859
Federal and state income taxes	**154,521**	98,227	76,488
Minority shareholders' equity in earnings	**6,567**	—	—
Net earnings	**$ 185,525**	$ 117,902	$ 90,371
Average common shares outstanding	**30,076**	29,556	29,415
Net earnings per common share	**$5.71**	$3.61	$2.69

See notes to consolidated financial statements

Consolidated Balance Sheets

American Stores Company and Subsidiaries

Assets

(In thousands of dollars)	*February 2, 1985*	*January 28, 1984*
Current Assets		
Cash and short-term cash investments	**$ 75,908**	$ 134,697
Receivables	**153,973**	49,542
Inventories	**1,196,136**	683,566
Prepaid expenses	**55,575**	34,628
Total current assets	**1,481,592**	902,433
Property, Plant and Equipment, at cost		
Land	**344,438**	61,558
Buildings	**611,804**	174,530
Machinery, equipment and fixtures	**951,582**	520,233
Leasehold costs and improvements	**174,158**	115,154
	2,081,982	871,475
Less accumulated depreciation and amortization	**391,175**	308,201
Net property, plant and equipment	**1,690,807**	563,274
Property Under Capital Leases, less accumulated amortization of \$74,278 in 1984, and \$67,676 in 1983	**137,160**	128,269
Goodwill	**52,522**	—
Other Assets	**173,656**	32,719
	$3,535,737	$1,626,695

American Stores Company and Subsidiaries

Liabilities and Shareholders' Equity

(In thousands of dollars)	*February 2, 1985*	*January 28, 1984*
Current Liabilities		
Short-term notes payable	**$ 25,000**	
Current maturities of long-term debt	**34,122**	$ 1,535
Current obligations under capital leases	**12,282**	10,292
Trade accounts payable	**662,144**	341,344
Other accrued liabilities	**337,205**	142,944
Accrued wages payable	**144,191**	88,729
Federal and state income taxes	**55,254**	31,850
Total current liabilities	**1,270,198**	616,694
Long-term Debt, less current maturities	**1,033,286**	210,436
Obligations Under Capital Leases, less current obligations	**166,543**	156,420
Other Liabilities	**90,077**	52,427
Deferred Income Taxes	**44,837**	20,914
$5.51 Cumulative Redeemable Preferred Stock of $1 par value. Authorized 2,450,000 shares; 2,036,372 shares issued and outstanding in 1983, at redemption value	—	118,110
Series A $4.375 Preferred Stock of $1 par value. 4,200,000 shares authorized; 3,939,700 shares issued and outstanding in 1984	**196,985**	—
Series B $6.80 Preferred Stock of $1 par value. 1,215,000 shares authorized; 1,141,176 shares issued and outstanding in 1984	**57,059**	—
Common Shareholders' Equity		
Common stock of $1 par value. Authorized 50,000,000 shares; issued 31,909,604 shares in 1984 and 30,013,494 shares in 1983	**31,910**	30,014
Additional paid-in capital	**148,362**	79,626
Retained earnings	**503,742**	351,260
Less cost of common treasury stock, 279,404 shares in 1984 and 408,879 shares in 1983	**(7,262)**	(9,206)
Total common shareholders' equity	**676,752**	451,694
	$3,535,737	$1,626,695

See notes to consolidated financial statements

Consolidated Statements of Common Shareholders' Equity

American Stores Company and Subsidiaries

Fiscal years, 53 weeks ended February 2, 1985 and 52 weeks ended January 28, 1984 and January 29, 1983

(In thousands of dollars)	*Common Stock*	*Additional Paid-In Capital*	*Retained Earnings*	*Treasury Stock*	*Total*
Balances at January 30, 1982	$10,001	$95,124	$188,345	$(3,877)	$289,593
Net earnings for the 52 weeks ended January 29, 1983			90,371		90,371
Issuance of 522,819 common shares for stock options		5,049		4,507	9,556
Sale of 11,400 common shares	4	209			213
Common dividends—$.33 per share			(9,806)		(9,806)
Preferred dividends—$5.51 per share			(11,220)		(11,220)
Purchase of 645,600 common shares				(11,324)	(11,324)
Other		72			72
Balances at January 29, 1983	10,005	100,454	257,690	(10,694)	357,455
Net earnings for the 52 weeks ended January 28, 1984			117,902		117,902
Issuance of 238,885 common shares for stock options		(891)		3,886	2,995
Effect of common stock split	20,009	(20,009)			—
Common dividends—$.44 per share			(13,112)		(13,112)
Preferred dividends—$5.51 per share			(11,220)		(11,220)
Purchase of 60,679 common shares				(2,398)	(2,398)
Other		72			72
Balances at January 28, 1984	$30,014	$79,626	$351,260	$(9,206)	$451,694

Consolidated Statements of Common Shareholders' Equity *(cont.)*

American Stores Company and Subsidiaries

Fiscal years, 53 weeks ended February, 2, 1985 and 52 weeks ended January 28, 1984 and January 29, 1983

(In thousands of dollars)	*Common Stock*	*Additional Paid-In Capital*	*Retained Earnings*	*Treasury Stock*	*Total*
Balances at January 28, 1984	$30,014	$ 79,626	$351,260	$(9,206)	$451,694
Net earnings for the 53 weeks ended February 2, 1985			185.525		185,525
Issuance of 225,550 shares for stock options	66	(3,929)		2,881	(982)
Issuance of 1,830,324 shares for acquisition	1,830	70,696			72,526
Common dividends—$.64 per share			(19,291)		(19,291)
Preferred dividends:					
$5.51 cumulative redeemable—$4.13 per share			(7,504)		(7,504)
Series A $4.375—$1.093 per share			(4,306)		(4,306)
Series B $6.80—$1.70 per share			(1,942)		(1,942)
Purchase of 30,290 common shares				(937)	(937)
Other		1,969			1,969
Balances at February 2, 1985	$31,910	$148,362	$503,742	$(7,262)	$676,752

See notes to consolidated financial statements

Consolidated Statements of Changes in Financial Position

American Stores Company and Subsidiaries

Sources of Funds

Fiscal years ended February 2, 1985, January 28, 1984 and January 29, 1983

(In thousands of dollars)	53 Weeks 1984	52 Weeks 1983	1982
Net earnings	**$ 185,525**	$117,902	$ 90,371
Items not affecting working capital:			
Depreciation and amortization	**152,993**	87,321	83,070
Deferred income taxes	**23,923**	(3,290)	10,249
Other	**5,091**	811	528
Total provided from operations	**367,532**	202,744	184,218
Proceeds from long-term borrowing	**605,136**	25,427	16,997
Additions to obligations under capital leases	**—**	5,150	6,295
Disposals of owned properties	**34,660**	6,720	19,870
Disposals of leased properties	**13,973**	2,430	7,876
Disposal of investment in Aurrera	**52,900**	—	—
Issuance of common stock	**73,513**	2,995	9,130
Issuance of preferred stock	**254,044**	—	—
Increase in other liabilities	**7,962**	7,248	9,800
	$1,409,720	$252,714	$254,186

Consolidated Statements of Changes in Financial Position *(cont.)*

American Stores Company and Subsidiaries

Uses of Funds

Fiscal years ended February 2, 1985, January 28, 1984 and January 29, 1983

(In thousands of dollars)	53 Weeks 1984	52 Weeks 1983	1982
Non-current assets and liabilities of business acquired			
Property, plant and equipment and other assets	**$1,265,517**		
Long-term debt and other liabilities	**(355,906)**		
	909,611		
Expended for property, plant and equipment	**308,120**	$135,242	$107,463
Additions to property under capital leases	**—**	5,150	6,295
Reduction of long-term debt	**65,609**	3,316	32,697
Reduction of obligations under capital leases	**29,858**	12,438	19,033
Redemption of preferred stock	**118,110**	—	—
Cash dividends	**33,043**	24,332	21,026
Purchase of treasury stock	**937**	2,398	11,324
Other, net	**18,777**	4,106	(275)
	1,484,065	186,982	197,563
(Decrease) increase in working capital	**(74,345)**	65,732	56,623
Working capital—beginning of year	**285,739**	220,007	163,384
Working capital—end of year	**$ 211,394**	$285,739	$220,007

Consolidated Statements of Changes in Financial Position *(cont.)*

American Stores Company and Subsidiaries

Changes in Components of Working Capital

Fiscal years ended February 2, 1985, January 28, 1984 and January 29, 1983

(In thousands of dollars)	53 Weeks 1984	52 Weeks 1983	1982
Increase (decrease) in current assets:			
Cash and short-term cash investments	**$ (58,789)**	$51,475	$30,209
Receivables	**104,431**	5,466	5,152
Inventories	**512,570**	71,038	51,365
Prepaid expenses	**20,947**	7,061	(1,538)
	579,159	135,040	85,188
Increase (decrease) in current liabilities:			
Short-term notes payable	**25,000**	—	—
Current maturities of long-term debt	**32,587**	494	(480)
Current obligations under capital leases	**1,990**	1,041	(582)
Accounts payable	**320,800**	35,473	9,798
Accrued liabilities	**194,261**	27,358	12,367
Accrued wages payable	**55,462**	4,830	8,238
Federal and state income taxes	**23,404**	112	(776)
	653,504	69,308	28,565
(Decrease) increase in working capital	**$ (74,345)**	$65,732	$56,623

See notes to consolidated financial statements.

Significant Accounting Policies

Business and Properties

The Company, through its subsidiaries, is engaged primarily in the operation of retail stores, selling drug and food merchandise through 1,486 retail food, drug and combination drug/food stores in 40 states. The Company also owns or leases subsidiary office facilities located throughout the country, corporate offices in Salt Lake City, Utah, land leased or owned for future expansion and various manufacturing and food processing facilities.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of dry grocery and drug inventories. Costs of the remaining inventories are computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation and Amortization

Depreciation and amortization charged to earnings for financial statement purposes, including amortization of property under capital leases, are generally computed using the straight-line method applied to individual property items.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings in the year in which they are incurred. When operations are discontinued and a store is closed, the remaining investment, net of salvage value, is charged against earnings and, for leased stores a provision is made for the remaining lease liability, net of expected sublease recovery.

Income Taxes

The Company provides for deferred income taxes or credits as timing differences arise in recording income and expenses between financial reporting and tax reporting. The Company accounts for investment tax credits under the "flow-through" method, reducing income tax expense in the year in which the asset that gives rise to the credit is placed in service.

Net Earnings Per Common Share

Net earnings per common share are determined by dividing the weighted average number of common shares outstanding during the year into net earnings after deducting dividends attributable to preferred shares. Common share equivalents in the form of stock options and the effect of the Series A $4.375 Preferred stock on fully diluted earnings per common share are excluded from the calculations since they have no material dilutive effect on per share figures.

Goodwill

The cost of the acquisition of Jewel Companies, Inc. over the estimated fair value of the net assets acquired (goodwill) is amortized on a straight line basis over a period of 40 years. Accumulated amortization at February 2, 1985 amounted to $768,000.

Acquisition

Pursuant to a cash tender offer, on June 29, 1984, a wholly owned subsidiary of the Company purchased approximately 71% of the common stock and approximately 73% of the Series A preferred shares of Jewel Companies, Inc. for $772,000,000. Subsequently, on November 16, 1984, the Company acquired the remaining outstanding common shares and Series A preferred shares of Jewel Companies, Inc. for approximately $318,000,000, in the form of 1,830,324 shares of American common stock, 3,803,008 shares of a newly created Series A Preferred stock and 1,101,585 shares of a newly created Series B Preferred stock. The estimated fair value of the American securities exchanged was determined on October 24, 1984. Additional capitalized costs associated with the acquisition amounted to $15,000,000.

The acquisition has been accounted for using the purchase method of accounting. Jewel Companies, Inc.'s assets and liabilities have been recorded in the Company's financial statements at their estimated fair values at the acquisition date. The Consolidated Statements of Earnings includes the operations of Jewel Companies, Inc. from June 29, 1984 through February 2, 1985, with appropriate recognition of minority shareholders' interest in the earnings of Jewel Companies, Inc. from June 29, 1984 to November 15, 1984.

The following pro forma combined results of operations for the years ended February 2, 1985 and January 28, 1984, assume the acquisition had occurred on January 30, 1983. The fully diluted earnings per common share calculation assumes the conversion of the Series A Preferred stock into common stock, as discussed in the "Preferred Stock" footnote.

The results are not necessarily indicative of what would have occurred had the acquisition been consummated as of January 30, 1983, or of future operations of the combined companies. The results are based on purchase accounting adjustments recognized in consolidating Jewel Companies, Inc. and include additional interest expense as if the funds borrowed in connection with the acquisition had been outstanding from the beginning of each year.

Pro Forma (unaudited)
(In thousands of dollars, except per share data)

	53 Weeks Ended February 2, 1985	*52 Weeks Ended January 28, 1984*
Net sales	**$14,599,658**	$13,707,198
Net earnings	**$207,923**	$145,890
Net earnings per common share	**$5.56**	$3.49
Fully diluted	**$5.31**	Anti-dilutive

Preferred Stock

$5.51 Cumulative Redeemable Preferred Stock

The Company redeemed all of its $5.51 Cumulative Redeemable Preferred Stock in November 1984.

Series A $4.375 Cumulative Convertible Exchangeable Preferred Stock

Series A Preferred Shares are entitled to receive preferential and cumulative quarterly dividends at an annual rate of $4.375 per share, are entitled to a preference, in liquidation, in the amount of $50 per share plus accrued and unpaid dividends, but are not entitled to vote except in the occurrence of certain specified events.

Each Series A Preferred Share will be initially convertible at the holder's option into 1.0782 American Common Shares commencing after November 15, 1986.

The Company is required to retire annually 5% of the number of Series A Preferred Shares outstanding, by means of a sinking fund, commencing November 15, 1995, at a price of $50 plus any accrued and unpaid dividends. In addition, Series A Preferred Shares will be redeemable, in whole or in part, at the Company's option, at any time or from time to time after November 15, 1987, at $53.063 per share and at prices which decline annually thereafter to $50 per Series A Preferred Share after November 15, 1994, plus accrued but unpaid dividends to the redemption date. The Company is required to redeem all remaining outstanding Series A Preferred Shares on November 15, 2009.

Series A Preferred Shares will be exchangeable, in whole but not in part, at the Company's option at any time after November 15, 1987 for American 8.75% Convertible Subordinated Debentures due 2009 at a rate of $50 principal amount of 8.75% Debentures for each Series A Preferred Share. The terms of the 8.75% Debentures with respect to interest payments, conversion rights, redemption and sinking fund requirements will be the same as such terms as set forth in the Series A Preferred Shares. There are no dividends in arrears.

Series B $6.80 Cumulative Exchangeable Preferred Stock

Series B Preferred Shares are entitled to receive preferential and cumulative quarterly dividends at an annual rate of $6.80 per share, are entitled to a preference, after payment has been made on all stock which ranks senior to Series B Preferred Shares, in involuntary or voluntary liquidation, in the amount of $50 per share plus accrued and unpaid dividends but are not entitled to vote except in the occurrence of certain specified events.

The Company is required to retire annually, beginning November 16, 1994, by means of a sinking fund, at a price of $50 plus any accrued and unpaid dividends, an amount equal to 9.09% of the aggregate number of Series B Preferred Shares issued. The Company is required to redeem all remaining outstanding Series B Preferred Shares on November 15, 2004.

Series B Preferred Shares are redeemable, at the Company's option, beginning after November 15, 1987 at $55.60 per Series B Preferred

Preferred Stock *(cont.)*

Share, and at prices which decline annually to $50 per Series B Preferred Share after November 15, 2001.

Series B Preferred Shares are exchangeable, in whole but not in part, at American's option after November 15, 1987 for American 13.60% Subordinated Debentures due 2004 at a rate of $50 principal amount of 13.60% Debentures plus accrued dividends for each Series B Preferred Share. There are no dividends in arrears. The terms of the 13.60% Debentures with respect to interest payment dates, redemption and sinking fund requirements will be the same as such terms as set forth in the Series B Preferred Shares.

Cash and Short-Term Cash Investments

Short-term cash investments consist primarily of certificates of deposit, treasury bills and notes, bankers acceptances, repurchase agreements and commercial paper which are carried at cost, which approximates market. At February 2, 1985 and January 28, 1984, short-term investments were $40,910,000 and $31,853,000, respectively, and certificates of deposits and other securities with a maturity of over 90 days amounted to $50,641,000 on January 28, 1984.

Inventories

The dry grocery and drug inventories of certain of the Company's subsidiaries are valued by the last-in, first-out (LIFO) method.

If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been $72,749,000 and $65,599,000 higher at February 2, 1985 and January 28, 1984, respectively. The LIFO charge to earnings, before income taxes, was $7,150,000 in 1984, $2,081,000 in 1983, and $5,771,000 in 1982.

Short-Term Borrowings

Lines of credit arrangements for short-term borrowings with a group of banks allow the Company to borrow up to $80,000,000 on terms mutually agreed to by the Company and the banks. These arrangements are reviewed annually for renewal.

In connection with these lines of credit, the Company has agreed to maintain approximately $650,000 in average compensating balances. The compensating balances also reduce charges for normal banking services provided to the Company. Compensating balances are not restricted as to withdrawal.

In the event the lines are drawn upon, additional cash balances may be required by the banks.

In addition, the acquisition loan, discussed in "Long-Term Debt", provides for a $75,000,000 short-term borrowing facility, of which $25,000,000 was outstanding at February 2, 1985. Terms of these agreements allow the Company to select the interest rates charged from three different options, one of which is the prime rate.

Long-Term Debt

A summary of long-term debt is as follows:

(In thousands of dollars)	*February 2, 1985*	*January 28, 1984*
Notes payable:		
12% due 1990	**$ 75,000**	$ 75,000
11.5% due 1992	**48,446**	—
Sinking fund debentures:		
9.375% due through 2001	**—**	27,360
9.875% due through 1990	**—**	9,010
Commercial banks:		
Acquisition loan—at prime	**425,000**	—
10% loans due 1985 through 1987	**30,343**	—
Industrial revenue bonds:		
12.08% average rate, due through 2002	**31,478**	—
Insurance companies:		
6.875%, due in annual installments of $1,500 through 1993	**11,886**	—
7.875%, due in annual installments of $1,500 through 1994	**13,206**	—
8.25%, due in semi-annual installments of $1,500 with balance due in 1997	**38,741**	—
13.875%, due 1989 through 1991	**125,000**	—
Loans secured by real estate, interest rates from 4¾% to 16% due through 2005	**268,308**	100,601
Total	**1,067,408**	211,971
Less current maturities	**34,122**	1,535
Long-term	**$1,033,286**	$210,436

The aggregate amounts of long-term debt maturing in each of the next five fiscal years are:

(In thousands of dollars)		
	1985	$ 34,122
	1986	22,678
	1987	43,553
	1988	24,191
	1989	108,401

Long-Term Debt *(cont.)*

The acquisition loan has been classified as long-term in accordance with a long-term facility entered into subsequent to February 2, 1985. The acquisition loan facility provides for the Company to borrow up to $425,000,000 on a long-term basis and $75,000,000 on a short-term basis. Interest rates for the acquisition loan are establis..ed through three different pricing options available to the Company, one of which is the prime interest rate.

The Companys' most restrictive loan covenants apply to, among other things, the allowable amount of senior funded debt, encumbrances of fixed assets, and minimum compliance levels of consolidated net worth. Retained earnings of $40,135,000 at February 2, 1985 are available for payment of common dividends and redemption of capital stock.

The various loans secured by real estate are collateralized by properties with a net book value of $367,322,000.

Certain debt assumed in the acquisition of Jewel Companies, Inc. has been restated to reflect market interest rates.

Capitalized Interest Costs

The Company capitalizes interest costs associated with long-term construction projects. Interest costs incurred by the Company amounted to $119,535,000 in 1984, $38,759,000 and $40,002,000 in 1983 and 1982, respectively, of which $7,797,000, $3,144,000 and $3,353,000 were capitalized.

Leases

The Company leases retail stores and distribution facilities. Initial lease terms range from 15 to 25 years, plus renewal options, and can provide for additional rentals based on sales volume in excess of specified levels.

The Company has classified its leases as either capital or operating. The summary below shows the aggregate future minimum rental commitments as of February 2, 1985, for both capital and operating leases.

(In thousands of dollars)

FISCAL YEAR	*Operating Leases*	*Capital Leases*
1985	$ 80,675	$ 31,200
1986	73,716	28,328
1987	68,348	28,276
1988	63,069	27,605
1989	60,617	27,933
Thereafter	538,993	204,372
Total minimum rental commitments	$885,418	347,714
Less executory costs (such as taxes, insurance, and maintenance) included in capital leases		9,169
Net minimum lease payments		338,545
Less amount representing interest		159,720
Obligations under capital leases, including $12,282 due within one year		$178,825

Rental expense was as follows:

(In thousands of dollars)	*Minimum Rentals*	*Rentals Based On Sales*	*Total Rentals*
1984	**$76,174**	**$23,895**	**$100,069**
1983	59,934	15,978	75,912
1982	53,600	13,661	67,261

Income Taxes

Federal and state income taxes charged to earnings are summarized below:

(In thousands of dollars)	1984	1983	1982
Current:			
Federal	**$112,927**	$83,221	$64,305
State	**25,296**	11,615	10,064
Deferred:			
Federal	**14,994**	3,119	2,041
State	**1,304**	272	78
	$154,521	$98,227	$76,488

The provision for income taxes differs from the amount which would be provided by applying the federal statutory rate (46%) to earnings before income taxes as follows:

(In thousands of dollars)	1984	1983	1982
Tax expense computed at statutory federal income tax rate	**$159,442**	$99,419	$76,755
State income taxes, net of federal income tax	**14,364**	6,419	5,406
Purchase accounting adjustments	**3,210**	—	—
Tax credits	**(11,857)**	(4,356)	(5,813)
Other	**(10,638)**	(3,255)	140
	$154,521	$98,227	$76,488
Effective income tax rate	**44.6%**	45.5%	45.8%

Purchase accounting adjustments, including goodwill amortization that gives rise to current expenses, are not deductible for income tax purposes.

Deferred income tax expense resulted from the following:

(In thousands of dollars)	1984	1983	1982
Accelerated depreciation for tax purposes	**$18,812**	$6,130	$5,582
Reserves for self-insurance	**(18,726)**	(8,577)	(7,643)
Other	**16,212**	5,838	4,180
	$16,298	$3,391	$2,119

Stock Option Plan

The Company has several stock option plans for employees for which shareholders have reserved 2,250,000 shares of common stock. The Company has granted stock options to employees at prices ranging from $.22 to $45.81 per share. In 1978, the shareholders approved an amendment to the plan providing for Stock Appreciation Rights. During the year ended February 2, 1985, the Company granted 70,500 stock options to employees at $45.81 per share.

Pursuant to the acquisition of the Jewel Companies, Inc., the Company assumed the Jewel outstanding stock options with appropriate adjustments to number of shares and exercise prices to give effect to the acquisition and to reflect issuance of acquisition consideration. At year-end, 31,570 shares of Series A Preferred Stock, 9,145 shares of Series B Preferred Stock and 15,193 shares of American Common stock were reserved for issuance of unexercised Jewel stock options.

Under the above described plans, stock options are exercisable on a cumulative basis of ten years or less. Compensation expense recognized was $1,305,000, $1,853,000 and $1,523,000, for 1984, 1983 and 1982, respectively. At February 2, 1985 and January 28, 1984, options for 51,792 and 35,732 shares, respectively, were exercisable. All of the Company's stock option plans expire during 1985. A summary of changes in shares under option follows:

Stock Option Plan *(cont.)*

	1984	1983	1982
Outstanding at beginning of year	**1,372,664**	815,319	941,025
Jewel options assumed with acquisition	**80,985**	—	—
Granted	**70,500**	841,806	45,654
Exercised	**(252,743)**	(262,387)	(140,691)
Forfeited	**(96,402)**	(22,074)	(30,669)
Outstanding at end of year	**1,175,004**	1,372,664	815,319
Average option price per share	**$25.78**	$22.19	$6.08
Reserved for future grant	**1,165,506**	1,139,604	1,959,336

Retirement Plans

During 1984, the Board of Directors of the Company authorized the termination of the American Stores Company Retirement Plan, a defined benefit plan, effective December 31, 1984, and the creation of American Stores Retirement Estates, a defined contribution plan, for eligible employees effective January 1, 1985. Approvals of the termination have been requested from the Internal Revenue Service (IRS) and the Pension Benefit Guaranty Corporation (PBGC). All participating employees of the Retirement Plan became fully vested on December 31, 1984.

After receipt of the required approvals from the PBGC and the IRS, at the option of the participants, vested benefits will be converted into an annuity or will be transferred into the newly created American Stores Retirement Estates to the benefit of each participant's individual account. Actuarial calculations are not complete. However, preliminary calculations indicate that assets held by the Retirement Plan will be sufficient to provide for the vested benefits of the participants. The Company's policy is to fund Retirement Plan costs accrued to the extent they are currently deductible for income tax purposes.

Results of operations for fiscal years 1984, 1983 and 1982 include the following Retirement Plan expenses:

	53 Weeks	52 Weeks	
(In thousands of dollars)	1984	1983	1982
Company-sponsored plans	**$46,986**	$22,356	$16,877
Multi-employer plans	**52,996**	45,934	43,890
TOTAL	**$99,982**	$68,290	$60,767

Information for vested and nonvested equity in multi-employer plans as well as net assets available for benefits is not available.

Litigation

As previously reported, in addition to various claims and litigation arising in the normal course of business, the Company has been named one of the many defendants in a number of private treble-damage antitrust actions brought by alleged producers and feeders of cattle which have been consolidated for pretrial proceedings in the United States District Court for the Northern District of Texas, *In re Beef Industry Antitrust Litigation*, MDL No. 248. The actions allege certain violations of the antitrust laws with respect to the purchase and sale of beef.

In 1977 most of these cases were dismissed by the District Court pursuant to the U.S. Supreme Court's decision in *Illinois Brick Co. v. Illinois*, 431 U.S. 720 (1977). However, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissals and remanded the cases for further proceedings to determine whether the plaintiffs were entitled to invoke the "cost-plus" exception to the rule of *Illinois Brick*, 600 F.2d 1148 (5th Cir. 1979), *cert. denied*, 449 U.S. 905 (1980).

On June 14, 1982, the District Court granted Defendants' Motion for Summary Judgement on the cost-plus issue, thus disposing of plaintiff's claims for damages allegedly suffered in their capacity as sellers of live cattle. Subsequently, plaintiffs in several of the actions agreed to dismiss without prejudice remaining claims for injunctive relief and, in two cases, claims for damages alleged to have resulted from a conspiracy to fix the price of beef at retail, subject to possible re-institution of these claims after the resolution of their appeal on the cost-plus issue.

On July 14, 1982, the District Court entered judgments dismissing the complaints in all of those cases in which the Company has been served as a defendant, and plaintiffs appealed the Court's ruling on the cost-plus issue of the Court of Appeals for the Fifth Circuit, which, in turn, sustained the Motion for Summary Judgment. That decision was the subject of a petition for *certiorari* filed by the plaintiffs with the U.S. Supreme Court which, in an order dated February 21, 1984, denied that petition, thereby effectively eliminating the possibility of monetary damages being awarded against the defendants in these cases.

The claims for injunctive relief arising out of the same alleged conspiracy to fix the wholesale prices of beef remain in four of the cases, and the plaintiffs are free, if they choose, to attempt to pursue such claims. In one additonal case in which no defendant has been served with the complaint, plaintiffs purport to seek damages and injunctive relief arising from the alleged conspiracy to fix wholesale prices of beef but do not claim the benefit of the cost-plus exception to *Illinois Brick*. No judgment has been entered in that case to date.

Additionally, in the case of, *United Food and Commercial Workers Union, Local 881 v. Jewel Food Stores Division of Jewel Companies, Inc.*, brought in the U.S. District Court for the Northern District of Illinois, Eastern Division, plaintiff has filed a complaint under Section 301 of the Labor Management Relations Act of 1947, as amended, alleging that defendant has violated the collective bargaining agreement between the parties by refusing to arbitrate a grievance and by unilaterally

Litigation *(cont.)*

reducing contract wages and other benefits. Plaintiff seeks compensatory and punitive damages in the amount of $25,000,000, attorney's fees and an order compelling Jewel to arbitrate on the issue of Jewel's said reduction of wages and benefits. Jewel and the Union have also filed charges against one another with the National Labor Relations Board arising out of the same matters.

Although management cannot now predict the outcome of these actions, it believes that Jewel has good and meritorious defenses to each action and that their outcome will not materially affect the Company's financial position.

Supplementary Income Statement Information

Advertising expense amounted to $132,976,000, $110,231,000 and $90,284,000 for 1984, 1983 and 1982, respectively.

Supplementary Information on Inflation and Changing Prices (Unaudited)

The following information presents the impact of inflation on the Company as required by Statement of Financial Accounting Standard No. 33 (FAS-33). The principal requirements of FAS-33 are the supplementary presentation of net earnings determined under the current cost method which measures inflation relative to specific assets purchased by the Company.

The supplementary statement of consolidated earnings, adjusted for changes in specific prices (current cost), restates depreciation, amortization, inventories and purchases to reflect the current costs of inventory, land, buildings and equipment. These adjustments are based on both internal and external price indexes specifically or closely related to the asset being measured. Sales, other income and operating and administrative expenses (except for any depreciation or amortization included therein) are deemed to be stated in current cost dollars in the primary financial statements and, therefore, do not require adjustment.

Depreciation and amortization is restated to current cost using the same estimated useful lives, salvage values and depreciation methods used in the primary statements.

FAS-33 does not permit adjustments to income taxes because companies are not permitted to recognize the effects of inflation for income tax purposes. Consequently, the effective tax rates for the current cost restatements are significantly higher than statutory rates.

American Stores Company and Subsidiaries

Consolidated Statement of Earnings Adjusted for Changing Prices for the Fiscal Year Ended February 2, 1985

Results of Operations

(In thousands of dollars)	*As Reported*	*Adjusted For Specific Prices*
Sales	$12,118,793	$12,118,793
Costs and expenses:		
Cost of merchandise sold	9,234,204	9,238,641
Depreciation and amortization	152,993	183,133
Other costs	2,391,550	2,391,550
Total costs	11,778,747	11,813,324
Earnings before income taxes	340,046	305,469
Income taxes	154,521	154,521
Net earnings	$ 185,525	$ 150,948

Changes in Carrying Value

(In thousands of dollars)	
Increase in current cost of inventories and property, plant and equipment	$11,472
Less effect of increase in the general price level	1,483
Excess of increases in specific prices over increases in the general price level	$ 9,989

Inventory and Property, Plant and Equipment

Adjusted for Changes in Specific Prices at February 2, 1985

(In thousands of dollars)	*As Reported*	*As Adjusted*
Inventories	$1,196,136	$1,273,3[illegible]
Property, plant and equipment and property under capital leases, net	$1,827,967	$2,029,167

American Stores Company and Subsidiaries

Supplementary Information on Inflation and Changing Prices *(cont.)*

Five-year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In thousands of dollars, except per share data)		1984	1983	1982	1981	1980
Sales	As reported	**$12,118,793**	$7,983,677	$7,507,772	$7,096,590	$6,419,884
	Adjusted for general inflation	**12,118,793**	8,319,663	8,077,327	8,074,726	8,040,794
Net earnings	As reported	**185,525**	117,902	90,371	64,552	51,553
	Adjusted for specific price changes	**150,948**	85,708	51,416	41,800	43,099
Earnings per share data	As reported	**5.71**	3.61	2.69	1.81	1.37
	Adjusted for specific price changes	**4.56**	2.51	1.34	.98	.98
Excess ([illegible]) of increase in [illegible] prices over increase in general price level		**9,989**	(18,418)	28,583	(24,994)	(26,625)
Purchasing power gain from holding net monetary liabilities		**54,446**	39,992	37,395	76,769	109,966
Net assets at year-end	As reported	**930,796**	569,804	475,565	407,703	361,978
	Adjusted for specific prices	**1,242,051**	882,747	807,585	722,905	674,791
Cash dividends declared per common share	As reported	**.64**	.44	.33	.27	.27
	Adjusted for general inflation	**.64**	.46	.35	.30	.33
Market price per common share at year-end	Historical amount	**49.50**	33.38	20.75	8.92	7.79
	Adjusted for general inflation	**49.50**	34.78	22.32	10.14	9.76
	Average consumer price index	**312.0**	299.4	290.0	274.2	249.1

Quarterly Results (Unaudited)

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included:

(In thousands of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1984					
Sales	**$2,083,202**	**$2,605,957**	**$3,447,879**	**$3,981,755**	**$12,118,793**
Gross profit	**490,635**	**614,470**	**820,048**	**959,436**	**2,884,589**
Net earnings	**25,957**	**34,446**	**35,519**	**89,603**	**185,525**
Net earnings per common share	**.78**	**1.07**	**1.10**	**2.76**	**5.71**
1983					
Sales	$1,882,059	$1,966,639	$1,973,295	$2,161,684	$7,983,677
Gross profit	459,784	476,167	481,208	514,841	1,932,000
Net earnings	21,867	27,369	22,826	45,840	117,902
Net earnings per common share	.65	.83	.67	1.46	3.61

Securities and Exchange Commission
Washington D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended February 2, 1985	Commission File Number 1-5392

American Stores Company
(Exact Name of Registrant)

Delaware	87-0207226
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
Post Office Box 27447 709 East South Temple Salt Lake City, Utah	84127-0447
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(801) 539-0112

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	*Name of each exchange on which registered*
Common Stock ($1 par value)	New York Stock Exchange, Inc. Philadelphia Stock Exchange, Inc. Pacific Stock Exchange, Inc.
Series A Preferred Stock	New York Stock Exchange, Inc.
Series B Preferred Stock	New York Stock Exchange, Inc.
12% Notes Due 1990	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ____

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of April 10, 1985.
Common Stock, $1 Par Value—$1,285,204,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of April 10, 1985.
Common stock, $1 Par Value—31,535,425.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Proxy Statement for the year ended February 2, 1985 are incorporated by reference into Part I and III.

Portions of the Annual Report for the year ended February 2, 1985 are incorporated by reference into Parts I, II and IV.

10-K Cross Reference Index

American Stores Company and Subsidiaries

* Not applicable

** Incorporated by reference to American's May 1985 Proxy Statement.

*** The following exhibits are provided upon request:

II - Amounts Receivable From Related Parties and Underwriters, Promoters and Employees Other Than Related Parties.

V - Property, Plant and Equipment.

VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment.

American Stores Company and Subsidiaries

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant American Stores Company April 16, 1985

By (Signature and Title) /s/ Thomas H. Sunday April 16, 1985
Executive Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on April 16, 1985.

/s/ L. S. Skaggs
L. S. SKAGGS
Chairman of the Board

/s/ Richard G. Dunlop
RICHARD G. DUNLOP
Vice Chairman of the Board and Treasurer

/s/ Victor L. Lund
VICTOR L. LUND
Senior Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on April 16, 1985.

/s/ L. S. Skaggs
L.S. SKAGGS
Chairman of the Board and Director

/s/ Louis H. Callister
LOUIS H. CALLISTER
Director

/s/ Silas H. Cathcart
SILAS H. CATHCART
Director

/s/ Richard G. Dunlop
RICHARD G. DUNLOP
Vice Chairman of the Board and Director

/s/ James B. Fisher
JAMES B. FISHER
Director

/s/ James H. Henson
JAMES H. HENSON
Director

/s/ Richard E. George
RICHARD E. GEORGE
Director

/s/ Williford Gragg
WILLIFORD GRAGG
Director

/s/ Leon G. Harmon
LEON G. HARMON
Director

/s/ Thomas W. King
THOMAS W. KING
Director

/s/ L. Tom Perry
L. TOM PERRY
Director

/s/ Barbara S. Preiskel
BARBARA S. PREISKEL
Director

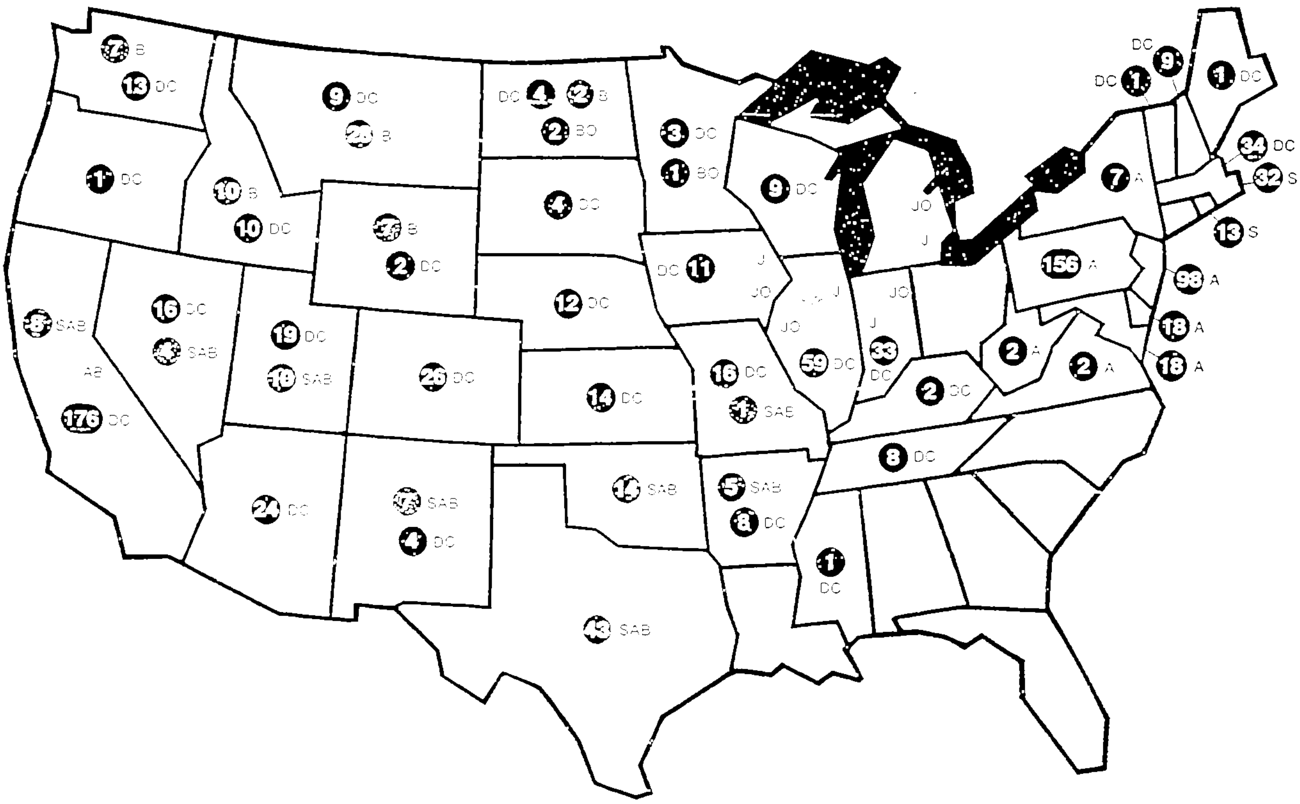
/s/ Aline W. Skaggs
ALINE W. SKAGGS
Director

/s/ Earl P. Staten
EARL P. STATEN
Director

/s/ Thomas H. Sunday
THOMAS H. SUNDAY
Executive Vice President, General Counsel and Director

/s/ I. J. Wagner
I.J. WAGNER
Director

AMERICAN STORES COMPANY



A 301 Acme Markets in 7 states

AB 244 Alpha Beta stores in 1 state

B 54 Buttrey Food stores in 5 states

BO 3 Buttrey-Osco Combination stores in 2 states

J 102 Jewel Food stores in 4 states

JO 116 Jewel-Osco Combination stores in 4 states

SAB 92 Skaggs Alpha Beta Combination stores in 8 states

DC 247 Osco Drug stores in 22 states

176 Sav-on Drug stores in 1 state

106 Skaggs Drug Centers in 11 states

S 45 Star Markets in 2 states

1,486 TOTAL STORES IN 40 STATES

(As of March 31, 1985)